



**Director of
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Page Denied

25X1

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Contents

25X1

Briefs and Comments

	Iran: <i>Oil Production</i>	1
	<div></div>	
25X1	Vietnam-China: <i>Border Talks</i>	5
	<div></div>	
	Turkey: <i>Economic Situation</i>	7
25X1	China: <i>Rumors of Arrests</i>	8
	<div></div>	
25X1	Brazil: <i>Figueiredo Cracks Down</i>	11
	<div></div>	
25X1	France: <i>Cantonal Elections</i>	13
	<div></div>	
	Pakistan: <i>Election Set</i>	14
	Lebanon: <i>Saudis Withdraw</i>	15
	France: <i>Demonstration</i>	15
	Special Analyses	
	OPEC: <i>Price Positions</i>	16
	<div></div>	
	Overnight Reports	21

25X1

The Overnight Reports, printed on yellow paper as the final section of the *Daily*, will often contain materials that update the Situation Reports and Briefs and Comments.

Top Secret

25X1

25X1

25X1

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BRIEFS AND COMMENTS

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IRAN: Oil Production

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[REDACTED]

[REDACTED] *The Iranian Government has not reported production figures since 17 March, when it announced that output was running at 2.5 million barrels per day. The US Embassy in Tehran says its best information is that production remains at 2.5 million barrels per day. If the Iranians are producing above this level, they might be delaying an announcement in order to protect the high prices they are getting for their oil exports.* [REDACTED]

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[REDACTED]

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Iran has sold more than 20 million barrels at prices averaging \$20 per barrel since it resumed exports on 5 March. Customers are lining up for long-term contracts beginning in the second quarter of the year at prices that apparently will be negotiated after the OPEC meeting on Monday. [REDACTED]

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Page Denied

Next 3 Page(s) In Document Denied

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VIETNAM-CHINA: Border Talks

China and Vietnam are on record as favoring beginning talks on their border problem next week, but conditions set by Hanoi suggest it will be difficult to hold to this schedule and that any eventual talks will be protracted and difficult. [redacted]

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In a Foreign Ministry note issued Wednesday, Vietnam established as a precondition for talks a Chinese withdrawal to the "historic border" as defined by Vietnamese interpretations of two late-19th-century conventions between France and the Qing Dynasty. In effect, China would be required to pull back from areas it has held since 1949, while Vietnam would not surrender any territory. The land area in dispute is small, probably less than 100 square kilometers, but the note also claims most of the potentially oil-rich Gulf of Tonkin and a number of islands in the South China Sea, some of which are now held by the Chinese. [redacted]

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The note holds out the possibility of Vietnamese military action against "Chinese occupied areas" in the future if the Chinese do not withdraw. [redacted]

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For its part, China has repeated its desire to start negotiations and attempted to portray Vietnam as the obstacle to beginning talks. China's media on Wednesday said the two sides are on the "eve" of talks, but accused Vietnam of using its demands for Chinese withdrawal to the "historic borderline" as pretexts to delay and undermine the negotiations. China thus far has given no sign that it will either bow to Vietnam's preconditions or offer to compromise on the issue. [redacted]

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TURKEY: Economic Situation

More than two months after the Guadeloupe summit, Western countries are having difficulty putting together a \$500-million to \$600-million multilateral aid package for Turkey because the Turks are rejecting policy changes demanded by the IMF as a condition for their participation. Western governments and private lenders thus far have refused to commit funds without an IMF endorsement even though they recognize the emergency situation. Turkish efforts to secure economic aid from Arab countries also have proven disappointing.

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Turkey's intransigent stand, despite an apparent willingness by the IMF to show some flexibility, has slowed the negotiations. West German Chancellor Schmidt has recommended mediation to arrive at a face-saving compromise. The West Germans, while prepared to lead an international rescue effort, are reluctant to bear the brunt of any ad hoc bilateral assistance program.

Prime Minister Ecevit is resisting more stringent measures because he says they could result in the downfall of his government and might even endanger Turkish democracy. Unless Turkey accepts the IMF loan conditions, however, the 220 banks that hold most of Turkey's short-term debts surely will continue to delay rolling them over and will not provide fresh funds.

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The government on Wednesday announced a list of stabilization measures, including a 10-percent cut in budget spending, more price increases on products of state enterprises, higher interest rates, and a multiple exchange rate system favoring worker remittances and exports of manufactured goods. Ecevit specifically rejected across-the-board devaluation. The steps taken to date are inadequate to deal with Turkey's economic problems and are unlikely to satisfy the IMF. The piecemeal, delayed announcement of the austerity program demonstrates the dissension it has generated within the cabinet. A substantial outright devaluation of the lira and other harsh measures seem inevitable.

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CHINA: Rumors of Arrests

Rumors are rife in Beijing that party Vice Chairman Wang Dongxing and 10 other senior officials have been arrested or expelled from the party. If so, this would be an important political victory for Vice Premier Deng Xiaoping. It would leave party Chairman Hua Guofeng, who himself has been under indirect attack, without significant support in the leadership and would cap protracted efforts by Deng to remove from power those who profited from the Cultural Revolution and who could pose obstacles to his policies.

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The rumors cannot be confirmed. Although none of the officials has appeared in public since the stories started circulating, one received a favorable mention in the press Thursday.

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All of the five or six Politburo members whose names are mentioned in the rumors were dealt harsh blows to their political power at major leadership meetings last November and December. Most were stripped of all but their Politburo seats, and most were forced to admit to wrongdoing. Their removal from the Politburo now would have the symbolic importance for Hua of making him appear powerless to prevent the final humiliation of his supporters and could bring him one step closer to losing the positions he holds.

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Next 3 Page(s) In Document Denied

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BRAZIL: Figueiredo Cracks Down

President Figueiredo's first policy move--a decision yesterday to take over the metalworkers' unions and replace their leaders--casts doubt on the sincerity of his promise of political liberalization.

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Late Thursday, workers rejected a plan to end their strike, which began on 12 March. They are demanding not only higher wages but a greater degree of influence with management. The workers are also fighting a management attempt to discount from any settlement the pay hike they won last year.

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It is still not certain just how tough Figueiredo intends to get in order to force compliance. If he uses troops to empty union halls, for example, or to herd workers back to the job, the result could easily be serious violence.

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Figueiredo's move could create problems for the US; it came only hours after Vice President Mondale left Brazil. The Brazilian left and anti-US forces elsewhere may well charge US collusion with--or at least approval of--the authoritarian steps.

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FRANCE: Cantonal Elections

The second round of French cantonal elections tomorrow will determine political control of several swing departmental councils wielding a fair amount of local power. Final results of the first round last Sunday, which gave the left 55.3 percent of the vote and the governing coalition 44.2 percent, reflect little change from the last such election in 1976. The results so far indicate that most voters are still willing to support the left in local elections even though divisions between the Communists and Socialists keep them from translating this sentiment into an effective repudiation of government economic policies.

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All the parties have found reason to take satisfaction in the first-round results. The Socialist Party got the most votes, 27 percent (against 26.5 percent in 1976), indicating that its internal squabbling has not yet damaged its image on the local level. The Communists almost held their own, declining only a fraction from the 22.8 percent they received last time. The Communist campaign, supporting working class objections to government economic policy, yielded electoral dividends in depressed areas.

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The results on the center-right are blurred because of the large number of progovernment candidates who choose to avoid running on either a Giscard - Union for French Democracy or Gaullist ticket and because neither of the latter parties fielded candidates in all districts. The Union for French Democracy, which did not exist in 1976, did extremely well with 21.1 percent; the Gaullists got 12.3 (10.6 in 1976) and, according to the Ministry of the Interior, another 10 percent was attributed to "diverse candidates favorable to the government majority." The Gaullists have protested this interpretation of the results, rightly claiming that a good percentage of the diverse voters actually went to candidates they had backed. An accurate interpretation of the relative strength of the Union for French Democracy and the Gaullists, extremely important for future relationships within the troubled governing coalition, will have to await the European Parliament election in June.

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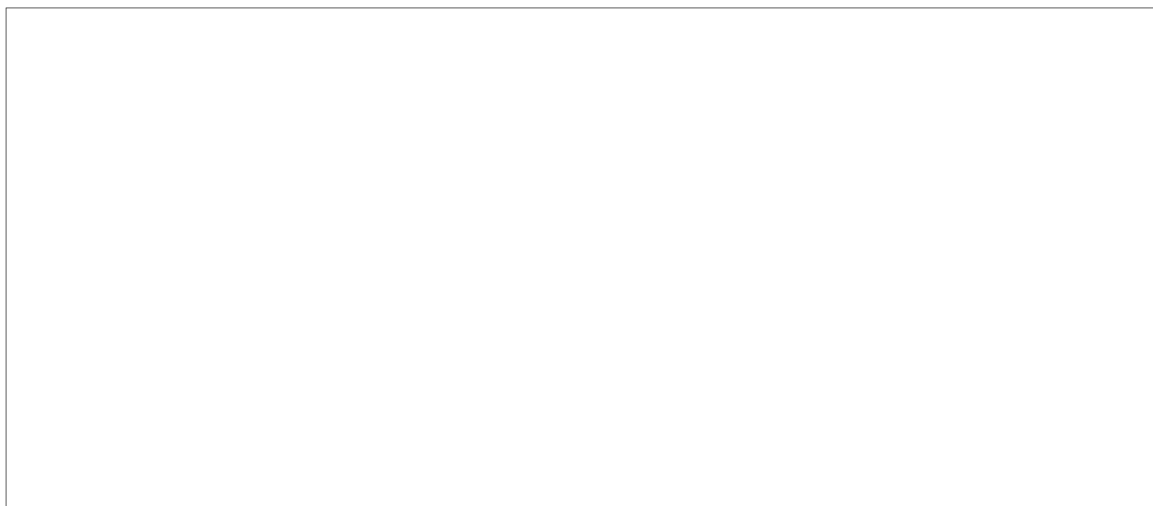
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PAKISTAN: Election Set

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President Zia-ul-Haq's announcement yesterday that a national election will be held on 17 November is probably designed, in part at least, to draw attention away from the execution of former Prime Minister Bhutto [redacted] [redacted] Before the election, Zia is expected to insist on amendments to the 1973 constitution that will strengthen the power of the president in relation to that of the prime minister. Zia may also want to provide for a permanent constitutional role for the military in Pakistani politics. [redacted]

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LEBANON: Saudis Withdraw

Lebanese Army troops yesterday afternoon began moving into positions in Beirut occupied by the departing Saudi contingent of the Arab peacekeeping force. The move, finally approved by leaders of both the Syrian and the Lebanese militias, apparently was peaceful and should allow the Saudis to withdraw from Lebanon within a few days. The Christian rightists reportedly have formed committees to keep order among their militiamen while the transition takes place, but they are also taking precautions in case fighting with the Syrians should break out. Saudi troops have occupied three of Beirut's more sensitive locations since the UN-sponsored ceasefire ended the last round of Syrian-Christian clashes last October.

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FRANCE: Demonstration

About 70,000 demonstrators joined in a disciplined and peaceful march on Paris yesterday that had been called by the Communists to protest layoffs in the steel industry. Youthful gangs, which have been increasingly resorting to violence, were responsible for clashes with riot police that took place after the march. Several policemen were injured, some seriously.

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SPECIAL ANALYSES

OPEC: Price Positions

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The Organization of Petroleum Exporting Countries is certain to agree at its special ministerial meeting in Geneva on Monday to charge higher prices for crude oil in the second quarter than called for under the price formula it adopted in December.

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If OPEC decides formally to adopt a new pricing structure, it would have to convert its meeting from a consultative to an extraordinary conference, which requires only the approval of a simple majority.

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A surcharge of \$1.20 per barrel on top of the previously scheduled increases would bring the second quarter price of OPEC benchmark crude to \$15.04 per barrel--18.4 percent above last year's price. The scheduled price increases alone--5 percent in first quarter 1979 and 3.8 percent in the second quarter--would have brought the benchmark price 9 percent above the price at the end of 1978.

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[REDACTED]

Consideration of prices beyond the second quarter is likely to be put off until the cartel's next regularly scheduled meeting in June. [REDACTED]

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The Saudi Position

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The Saudis have made no specific commitments concerning their role in the meeting on Monday. On the eve of Oil Minister Yamani's departure for Geneva, he told the US Ambassador that the Saudis would continue to push for price moderation, but he emphasized the strong pressures the Saudis would face from price hawks. Yamani has indicated that, given current market conditions, the Saudis--at a minimum--will have to agree to charge fourth-quarter 1979 prices in the second quarter. This would result in a price for benchmark crude 14.5 percent above the 1978 price. [REDACTED]

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Iran

An official of the National Iranian Oil Company recently said that the Iranian delegation to the Geneva meeting does not have a fixed idea of what the future price of oil should be. He said the Iranians would make up their minds after hearing the opinion of the cartel's other members. [REDACTED]

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Iran has concluded crude export deals for the second quarter with a number of oil companies. The price, however, has been left open, with the understanding that it will be linked to whatever price decision is made at the meeting on Monday. Iranian officials have indicated

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that, while they will not insist on spot prices for long-term contracts, they would regard the official OPEC price as a floor and reserve the option to charge more if the market warrants. [REDACTED]

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Other Members

The strongest pressure for higher oil prices is likely to come from the major African producers--Nigeria, Libya, and Algeria. These states might insist on applying their own surcharges during the second quarter regardless of what OPEC decides. [REDACTED]

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[REDACTED] Kuwait, which played a large role in adoption of the original pricing formula for 1979, is likely to lobby strongly for continued application of a surcharge. [REDACTED]

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Venezuela has already announced that it will charge a \$1.20-per-barrel premium on top of the previously scheduled second-quarter increase--a move probably designed to prompt other OPEC members to follow suit. The Indonesian Energy Minister reportedly said recently that regardless of what is decided at Geneva, Indonesia will increase its second quarter price by 10 percent rather than the 3.8 percent originally planned. The United Arab Emirates and Qatar are likely to push for continuation of a surcharge. [REDACTED]

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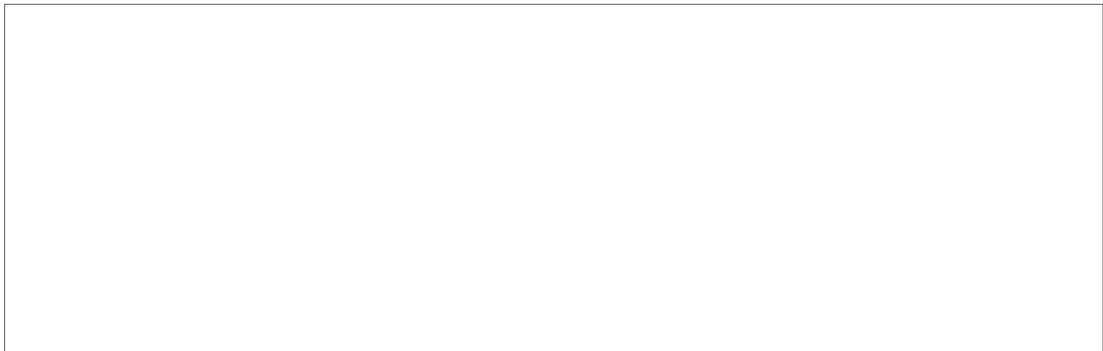
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OVERNIGHT REPORTS

(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

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Hungary - USSR

Contacts of the US Embassy in Budapest tend to confirm earlier reporting that economic matters were the prime topic of conversation during Janos Kadar's recent trip to Moscow. The Hungarians reportedly asked for long-term commitments of raw material deliveries, while the Soviets pressed for CEMA integration and increased Hungarian investment in CEMA projects. According to the Embassy, any significant personnel changes in the Hungarian cabinet and the Politburo stemming from the country's mediocre economic performance last year will be announced at the spring plenum of the Central Committee.

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